

City of Loma Linda Redevelopment Agency

Loma Linda, California

*Basic Financial Statements and
Independent Auditors' Reports*

For the year ended June 30, 2006

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Basic Financial Statements

For the year ended June 30, 2006

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the City of Loma Linda Redevelopment Agency
Loma Linda, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Loma Linda Redevelopment Agency (Agency), a component unit of the City of Loma Linda, California (City), as of and for the year ended June 30, 2006, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 1 to the basic financial statements, the Agency adopted the Governmental Accounting Standards Board Statements No. 46, *Net Assets Restricted by Enabling Legislation* and No. 47, *Accounting for Termination Benefits*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Agency has not presented the Management Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Oakland

180 Grand Ave., Suite 1365
Oakland, California 94612

Orange County

9 Corporate Park, Suite 100
Irvine, California 92606

Sacramento

777 Campus Commons Rd., Suite 200
Sacramento, California 95825

San Diego

4858 Mercury, Suite 106
San Diego, California 92111

To the Board of Directors
of the City of Loma Linda Redevelopment Agency
Loma Linda, California

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying supplementary information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Caparice & Carson

Irvine, California
August 24, 2006

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Statement of Net Assets

June 30, 2006

	Governmental Activities
<hr/>	
ASSETS	
Cash and investments	\$ 24,875,397
Receivables:	
Accounts	157,912
Taxes	385,270
Interest	329,355
Contract and loans	1,119,321
Due from City	32,510
Due from other governments	95,542
Prepaid items	51,502
Deferred charges	1,357,530
Land held for resale	12,449,141
Advances to City	5,792,100
Restricted assets:	
Cash and investments with fiscal agents	2,373,583
Total assets	<u>49,019,163</u>
 LIABILITIES	
Accounts payable	882,452
Interest payable	961,368
Accrued payroll	9,636
Deposits payable	38,481
Bonds and capital lease - due within one year	1,404,502
Noncurrent liabilities:	
Bonds and capital lease - due in more than one year	36,240,734
Advances from City	18,794,828
Total noncurrent liabilities	<u>55,035,562</u>
Total liabilities	<u>58,332,001</u>
 NET ASSETS	
Restricted for:	
Debt service	2,956,265
Capital projects	2,642,335
Total restricted net assets	<u>5,598,600</u>
Unrestricted	(14,911,438)
Total net assets	<u>\$ (9,312,838)</u>

See accompanying Notes to Basic Financial Statements.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Statement of Activities

For the year ended June 30, 2006

		Net (Expense) Revenue and Changes in Net Assets
Functions/Programs	Expenses	Governmental Activities
Primary government:		
Governmental Activities:		
General government	\$ 1,926,115	\$ (1,926,115)
Community development	2,459,277	(2,459,277)
Interest on long-term debt	2,571,091	(2,571,091)
Total governmental activities	\$ 6,956,483	(6,956,483)
General revenues:		
Taxes (net of pass-through payments)		6,099,537
Investment revenue		969,506
Other revenue		31,904
Total general revenues		7,100,947
Change in net assets		144,464
Net assets - beginning of year		(9,457,302)
Net assets - end of year		\$ (9,312,838)

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Governmental Fund Financial Statements

The *Loma Linda Redevelopment Agency Debt Service Fund* accounts for the accumulation of resources for payment of interest and principal on long-term debt of the Agency.

The *Loma Linda Redevelopment Agency Capital Projects Fund* accounts for the financing, construction and administrative activities of the agency.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Balance Sheet

All Governmental Funds

June 30, 2006

	Major Funds		Total Governmental Funds
	Debt Service	Capital Projects	
ASSETS			
Cash and investments	\$ -	\$ 24,875,397	\$ 24,875,397
Receivables:			
Accounts	-	157,912	157,912
Taxes	307,845	77,425	385,270
Interest	31,333	298,022	329,355
Contract and loans	-	1,119,321	1,119,321
Due from other funds and City	302,525	479,612	782,137
Due from other governments	-	95,542	95,542
Prepaid items	-	51,502	51,502
Land held for resale	-	12,449,141	12,449,141
Advances to City	-	5,792,100	5,792,100
Restricted assets:			
Cash and investments with fiscal agents	2,373,583	-	2,373,583
Total assets	\$ 3,015,286	\$ 45,395,974	\$ 48,411,260
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ -	\$ 882,452	\$ 882,452
Accrued payroll	-	9,636	9,636
Due to other funds	59,021	690,606	749,627
Deposits payable	-	38,481	38,481
Deferred revenue	-	107,586	107,586
Advances from City	7,584,049	11,210,779	18,794,828
Total liabilities	7,643,070	12,939,540	20,582,610
Fund Balance:			
Reserved for:			
Encumbrances	-	2,642,335	2,642,335
Prepaid items	-	51,502	51,502
Sewer capacity rights	-	79,862	79,862
Land held for resale	-	12,449,141	12,449,141
Long-term receivables	-	1,039,459	1,039,459
Advances to City	-	5,792,100	5,792,100
Debt service	2,373,583	-	2,373,583
Unreserved, undesignated	(7,001,367)	10,402,035	3,400,668
Total fund balance	(4,627,784)	32,456,434	27,828,650
Total liabilities and fund balance	\$ 3,015,286	\$ 45,395,974	\$ 48,411,260

See accompanying Notes to Basic Financial Statements.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2006

Fund Balance - Total Governmental Funds	\$ 27,828,650
Amounts reported for governmental activities in the Statement of Net Assets were different because:	
Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds' Balance Sheet.	
Bonds payable, net of unamortized loss of defeasance, premium and discount	(37,638,484)
Capital lease	(6,752)
	<u>(37,645,236)</u>
Bond issuance costs from issuing debt were expenditures in the fund financial statements. However, they were deferred and subject to capitalization and amortization in the Government-Wide Financial Statements.	
	<u>1,357,530</u>
Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in the Governmental Funds' Balance Sheet.	
	<u>(961,368)</u>
Revenues were recorded as deferred revenue in the Governmental Funds' Balance Sheet because they did not meet the revenue recognition criteria. However, they were reclassified as revenues in the Government-Wide Financial Statements.	
	<u>107,586</u>
Net Assets of Governmental Activities	\$ (9,312,838)

CITY OF LOMA LINDA REDEVELOPMENT AGENCY
Statement of Revenues, Expenditures, and Changes in Fund Balance
All Governmental Funds
For the year ended June 30, 2006

	Major Funds		Total Governmental Funds
	Debt Service	Capital Projects	
REVENUES:			
Taxes and assessments	\$ 4,772,247	\$ 1,327,290	\$ 6,099,537
Use of money and property	64,562	904,944	969,506
Other revenue	-	12,473	12,473
Total revenues	4,836,809	2,244,707	7,081,516
EXPENDITURES:			
Current:			
General government	-	1,926,115	1,926,115
Community development	-	2,459,277	2,459,277
Debt service:			
Principal retirement	464,304	-	464,304
Interest and fiscal charges	1,832,182	-	1,832,182
Bond issuance costs	-	899,273	899,273
Total expenditures	2,296,486	5,284,665	7,581,151
REVENUES OVER (UNDER) EXPENDITURES	2,540,323	(3,039,958)	(499,635)
OTHER FINANCING SOURCES (USES):			
Bond proceeds	-	25,535,000	25,535,000
Premium on bonds	-	313,969	313,969
Discount on bonds	-	(79,798)	(79,798)
Transfers in	-	70,000	70,000
Transfers out	-	(70,000)	(70,000)
Total other financing (uses) sources	-	25,769,171	25,769,171
Net change in fund balance	2,540,323	22,729,213	25,269,536
FUND BALANCE:			
Beginning of year, as restated	(7,168,107)	9,727,221	2,559,114
End of year	<u>\$ (4,627,784)</u>	<u>\$ 32,456,434</u>	<u>\$ 27,828,650</u>

See accompanying Notes to Basic Financial Statements.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Government-Wide Statement of Activities and Changes in Net Assets For the year ended June 30, 2006

Net Change in Fund Balances – Total Governmental Funds	\$ 25,269,536
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Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets were different because:

Amortization expense was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, amortization expense was not reported as expenditures in the governmental funds.

Amortization of deferred charges	(43,215)
Amortization of loss of defeasance	(10,310)
Amortization of premium	22,012
Amortization of discount	(2,327)

Proceeds from long-term debt provided current financial resources to governmental funds, but issuing debt increased long-term liabilities in the Government-Wide Statement of Net Assets. Repayment of bond principal was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Assets.

Long-term debt proceeds	(25,535,000)
Premium on bonds issued	(313,969)
Discount on bonds issued	79,798
Principal payment	464,304

Interest expense on long-term debt is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in the governmental funds. The following amount represented the change in accrued interest from the prior year.

(705,069)

Cost of issuance was an expenditure in the governmental funds, but the issuance cost was capitalized in the Government-Wide Statement of Net Assets. This amount is being amortized over the life of the bond.

899,273

Certain revenues were recorded as deferred revenue in the governmental funds because they did not meet the revenue recognition criteria of availability. However, they were included as revenue in the Governmental-Wide Statement of Activities and Changes in Net Assets under the full accrual basis.

19,431

Change in net assets of governmental activities

\$ 144,464

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NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Loma Linda Redevelopment Agency (Agency), a component unit of the City of Loma Linda, California (City), have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applies to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

A. Reporting Entity

The Loma Linda Redevelopment Agency (Agency) was created on March 29, 1979 pursuant to the State of California Health and Safety Code, Section 33000 entitled "Community Development Law". The primary purpose of the Agency is to encourage private redevelopment of property and to rehabilitate areas suffering from economic disuse arising from poor and inadequate planning, inadequate street layout and street access, lack of open space, landscaping and other improvements and facilities necessary to establish and maintain the economic growth of the City.

Two project areas have been created within the Agency:

Project Area No. 1 was approved on November 13, 1979. First amendment to Project Area No. 1 was approved on December 13, 1994. This area has a fiscal year 1994-95 frozen base.

Project Area No. 2 was approved on April 28, 1987.

B. Basis of Accounting and Measurement Focus

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Agency resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The Agency's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental Activities for the Agency.

The Government-Wide Financial Statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables including the corresponding deferred revenues. All internal balances in the Statement of Net Assets have been eliminated. The following interfund activities have been eliminated:

- Due to and from other funds
- Transfers in and out

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide Financial Statements. The City has presented all major funds that met the qualifications for major fund reporting.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except that revenues subject to accrual (generally within 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency are property taxes, taxpayer-assessed tax revenues (transient occupancy taxes, franchise taxes, etc.), certain grant revenues and earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the balance sheet and revenue is recognized.

Reconciliation of the Governmental Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

The Agency reports the following major governmental funds:

The Debt Service Fund accounts for the accumulation of resources of payment for interest and principal on long-term debt of the Agency.

The Capital Projects Fund accounts for the financing, construction and administrative activities of the Agency.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

D. Cash, Cash Equivalents and Investments

The Agency pools its available cash with the City for investment purposes. The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as Cash and Investments.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California titled *Local Agency Investment Fund* (LAIF) which has invested a portion of the pool funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these structured notes and asset-backed securities are subject to market risk as to change in interest rates.

E. Receivables

All receivables are shown net of an allowance for doubtful accounts.

F. Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e., the current portion of interfund loans).

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursed fund. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as transfers.

G. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

H. Land held for Resale

Land purchased for resale is capitalized as inventory at acquisition cost or net releasable value, if lower.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Restricted Cash and Investments with Fiscal Agents

Certain restricted cash and investments are held by fiscal agents for the redemption of bonded debt and for acquisition and construction of capital projects.

J. Interest Payable

In the Government-Wide Financial Statements, interest payable on long-term debt is recognized as the liability is incurred for governmental fund types and proprietary fund types.

K. Deferred Revenue

In the Government-Wide Financial Statements, deferred revenue is recognized for transactions for which revenue has not yet been earned. Typical transactions recorded as deferred revenues in the Government-Wide Financial Statements are prepaid charges for services.

In the Governmental Fund Financial Statements, deferred revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The Agency records deferred revenue for transactions for which revenues have not been earned, or for which funds are not available to meet current financial obligations. Typical transactions for which deferred revenue is recorded are grants received but not yet earned or available, long-term loans receivables, and prepaid charges for services.

L. Long-Term Debt

Government-Wide Financial Statements - Long-term debt and other financed obligations are reported as liabilities in the Government-Wide Financial Statements. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges.

Governmental Fund Financial Statements - The Governmental Fund Financial Statements do not present long-term debt. As such, long-term debt is shown as a reconciling item in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

Governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financial sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

M. Fund Balance

Reservations of fund balance indicate those portions of fund balance unavailable for appropriation or amounts legally segregated for a specific future use. Designations indicate tentative management plans for future uses of financial resources.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

N. Net Assets

In the Government-Wide Financial Statements, net assets are classified in the following categories:

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “restricted net assets.”

O. Property Taxes

Property tax revenue is recognized under the modified accrual basis in the fiscal year for which the taxes have been levied providing they become available. Available means then due or past due, and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter (not to exceed 60 days) to be used to pay liabilities of the current period. The County of San Bernardino collects property taxes for the Agency. Tax liens attach annually as of 12:01 A.M. on the first day in January preceding the fiscal year for which the taxes are levied. Taxes are levied on both real and personal property, as it exists on that date. The tax levy covers the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due February 1. All taxes are delinquent if unpaid on December 10 and April 10, respectively. Unsecured personal property taxes become due on the first of March each year and are delinquent, if unpaid, on August 31.

P. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Q. Implementation of New GASB Pronouncements

The Agency adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 46 *Net Assets Restricted by Enabling Legislation* addresses selected issues and amends GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The Statement enhances the usefulness and comparability of net asset information and clarifies the meaning of legal enforceability. The Statement also specified accounting and financial reporting requirements for restricted net assets.
- GASB Statement No. 47 *Accounting for Termination Benefits* provides accounting guidance for state and local governmental employers regarding benefits (such as early-retirement incentives and severance benefits) provided to employees that are terminated. The Statement requires recognition of the cost of involuntary termination benefits in the period in which a government becomes obligated to provide benefits to terminated employees.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2006

2. CASH AND INVESTMENTS

The Agency has the following cash and investments at June 30, 2006:

Cash and Investments	\$	24,875,397
Restricted Cash and Investments with Fiscal Agents		<u>2,373,583</u>
Total	\$	<u>27,248,980</u>

The Agency's funds are pooled with the City's cash and investments in order to generate optimum interest income. The information required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, related to authorized investments, credit risk, etc., is available in the basic financial statements of the City.

3. CONTRACT AND LOANS RECEIVABLE

Contract and loans receivable consisted of the following at June 30, 2006:

	Balance July 1, 2005	Addition	Deletion	Balance June 30, 2006
Sewer Capacity Right	\$ 79,862	\$ -	\$ -	\$ 79,862
Deferred Housing Loan	308,181	30,501	(34,097)	304,585
Loan to Developers	274,048	-	-	274,048
First Time Homebuyers	338,834	76,100	(15,985)	398,949
Housing Loan/Grants	75,971	17,432	(31,526)	61,877
Total	\$ 1,076,896	\$ 124,033	\$ (81,608)	\$ 1,119,321

4. INTERFUND TRANSACTIONS

A. Due To and Due From Other Funds

At June 30, 2006, the Agency had the following due to/from other funds:

	Due From Other Funds		
	Redevelopment Agency Debt Service	Redevelopment Agency Capital Projects	Total
Due To Other Funds			
Redevelopment Agency Debt Service	\$ -	\$ 59,021	\$ 59,021
Redevelopment Agency Capital Projects	302,525	388,081	690,606
Total	\$ 302,525	\$ 447,102	\$ 749,627

The due to and due from within the Agency was made to cover negative cash, project costs and administrative costs.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2006

4. INTERFUND TRANSACTIONS, Continued

B. Advances

At June 30, 2006, the Agency had the following advances:

	Advances Receivable		
	Redevelopment Agency Capital Projects	City of Loma Linda	Total
Advances Payable			
Redevelopment Agency Debt Service	\$ -	\$ 7,584,049	\$ 7,584,049
Redevelopment Agency Capital Projects	-	11,210,779	11,210,779
City of Loma Linda	5,792,100	-	5,792,100
Total	\$ 5,792,100	\$ 18,794,828	\$ 24,586,928

The advances in the amount of \$5,792,100 represent loans made from the Agency to the City of Loma Linda to fund start-up costs.

The Agency has received loans from the City. The loans do not have a fixed repayment schedule. \$18,195,321 of the loans bear interest at 12% per annum and \$195,390 of the loans bear 0% interest. The balance of these loans at June 30, 2006 was \$18,794,828.

C. Transfers

At June 30, 2006, the Agency had the following transfers in/out:

	Transfers In
	Redevelopment Agency Capital Projects
Transfers Out	
Redevelopment Agency Capital Projects	\$ 70,000

Transfers within the Agency were used to move funds for operating expenses.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2006

5. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the fiscal year ended June 30, 2006:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Due within One Year	Due in more than One Year
Tax Allocation Bonds:						
2003 Tax Allocation Refunding Bonds	\$ 12,230,000	\$ -	\$ (460,000)	\$ 11,770,000	\$ 475,000	\$ 11,295,000
Subordinate 2005 A Tax Allocation Bonds	-	15,100,000	-	15,100,000	380,000	14,720,000
Subordinate 2005 B Taxable Tax Allocation Bonds	-	10,435,000	-	10,435,000	545,000	9,890,000
Capital Lease	11,055	-	(4,304)	6,751	4,502	2,249
Unamortized loss on defeasance	(256,025)	-	10,310	(245,715)	-	(245,715)
Unamortized bond premium	364,714	313,969	(22,012)	656,671	-	656,671
Unamortized bond discount	-	(79,798)	2,327	(77,471)	-	(77,471)
Total	\$ 12,349,744	\$ 25,769,171	\$ (473,679)	\$ 37,645,236	\$ 1,404,502	\$ 36,240,734

2003 Tax Allocation Refunding Bonds – Original Issue \$12,610,000

On April 28, 2003, the Agency issued tax allocation bonds in the amount of \$12,610,000. The purpose of the bonds was to refund the Agency's 1993 Tax Allocation Bonds and 1994 Tax Allocation Refunding Bonds and to finance the Agency's redevelopment project.

The bonds accrue interest at rates between 2.00% and 5.25%. Interest on the bonds is payable semiannually on each January 1 and July 1, commencing January 1, 2004. Principal is payable in annual installments ranging from \$340,000 to \$600,000, commencing July 1, 2004 through July 1, 2030. The bonds are subject to optional and mandatory redemption prior to maturity.

The bonds are secured by a first and prior lien on tax increment revenues excluding any portion of revenues that are required to be deposited to the Agency's Low and Moderate Income Housing Funds. The amount of bonds outstanding at June 30, 2006 totaled \$11,770,000.

The annual debt service requirements on these bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 475,000	\$ 499,356	\$ 974,356
2008	480,000	488,013	968,013
2009	490,000	474,663	964,663
2010	500,000	459,813	959,813
2011	520,000	444,513	964,513
2012 - 2016	2,845,000	1,757,869	4,602,869
2017 - 2021	1,895,000	1,290,888	3,185,888
2022 - 2026	2,280,000	913,631	3,193,631
2027 - 2031	2,285,000	304,809	2,589,809
Total	\$ 11,770,000	\$ 6,633,555	\$ 18,403,555

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2006

5. LONG-TERM DEBT, Continued

Subordinate 2005A Tax Allocation Bonds – Original Issue \$15,100,000

On November 30, 2005, the Agency issued subordinate 2005A tax allocation bonds in the amount of \$15,100,000. The purpose of the bonds was to finance the Agency's redevelopment project.

The bonds mature from July 1, 2006 to July 1, 2030 in varying amounts. The bonds accrue interest at rates between 3.00% and 5.25%. Interest on the bonds is payable semiannually on each January 1 and July 1, commencing July 1, 2006. Principal is payable in annual installments ranging from \$70,000 to \$1,980,000, commencing July 1, 2006. The bonds are subject to optional and mandatory redemption prior to maturity.

The bonds are secured by tax revenues, which consist of a portion of the ad valorem taxes levied upon all taxable property within the Loma Linda Redevelopment Agency Project Area, and allocated to the Agency and available after payment due to pay debt service on the Agency's previously issued bonds. The amount of bonds outstanding at June 30, 2006 totaled \$15,100,000.

The annual debt service requirements on these bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 380,000	\$ 758,293	\$ 1,138,293
2008	70,000	717,092	787,092
2009	75,000	714,917	789,917
2010	75,000	712,574	787,574
2011	75,000	710,137	785,137
2012 - 2016	465,000	3,506,582	3,971,582
2017 - 2021	2,165,000	3,235,606	5,400,606
2022 - 2026	2,835,000	2,695,174	5,530,174
2027 - 2031	8,960,000	1,224,045	10,184,045
Total	\$ 15,100,000	\$ 14,274,420	\$ 29,374,420

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2006

5. LONG-TERM DEBT, Continued

Subordinate 2005B Taxable Tax Allocation Bonds – Original Issue \$10,435,000

On November 30, 2005, the Agency issued subordinate 2005B taxable tax allocation bonds in the amount of \$10,435,000. The purpose of the bonds was to finance the Agency's redevelopment project.

The bonds mature from July 1, 2006 to July 1, 2025 in varying amounts. The bonds accrue interest at rates between 5.00% and 5.65%. Interest on the bonds is payable semiannually on each January 1 and July 1, commencing July 1, 2006. Principal is payable in annual installments ranging from \$315,000 to \$810,000, commencing July 1, 2006. The bonds are subject to optional and mandatory redemption prior to maturity.

The bonds are secured by tax revenues, which consist of a portion of the ad valorem taxes levied upon all taxable property within the Loma Linda Redevelopment Agency Project Area, and allocated to the Agency and available after payment due to pay debt service on the Agency's previously issued bonds. The amount of bonds outstanding at June 30, 2006 totaled \$10,435,000.

The annual debt service requirements on these bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 545,000	\$ 579,009	\$ 1,124,009
2008	315,000	530,785	845,785
2009	330,000	514,660	844,660
2010	350,000	497,660	847,660
2011	365,000	479,785	844,785
2012 - 2016	2,130,000	2,084,764	4,214,764
2017 - 2021	2,765,000	1,426,904	4,191,904
2022 - 2026	3,635,000	536,044	4,171,044
Total	\$ 10,435,000	\$ 6,649,611	\$ 17,084,611

Capital Lease

On July 23, 2002, the City entered into a master lease agreement with CaLease Public Funding to lease various equipment in the amount of \$900,800 of which \$21,000 has been allocated as debt of the Agency. Payments are due February and August of each year commencing February 14, 2003 in the amount of \$2,380. Payments include interest at 4.57%. The principal balance of the Agency's portion of the lease at June 30, 2006 was \$6,751.

The annual debt service requirements outstanding at June 30, 2006 were as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 4,502	\$ 258	\$ 4,760
2008	2,249	51	2,300
Total	\$ 6,751	\$ 309	\$ 7,060

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2006

6. LIABILITY, PROPERTY AND WORKERS' COMPENSATION PROTECTION

Insurance coverage has been obtained by the City through the California Joint Powers Insurance Authority for the City and all agencies under its control, including the Agency. Additional information as to the coverage can be obtained by contacting the City.

7. JOINT VENTURES

San Bernardino/Colton/Loma Linda Joint Powers Financing Authority

The Agency is a member of the San Bernardino/Colton/Loma Linda Joint Powers Financing Authority (Authority), a joint powers authority of the Redevelopment Agencies of the Cities of San Bernardino, Colton, Loma Linda and the County of San Bernardino. The Authority was formed September 30, 1991 for the purpose of issuing debt. Tax Allocation Notes for \$7,500,000 were issued November 1, 1991 and the proceeds were used to make a loan to the Inland Valley Development Agency (IVDA), of which the three cities and the County of San Bernardino are members. The loan was used to pay certain operating and redevelopment costs of the Inland Valley Redevelopment Project Area. Since 1991, the original obligation has been refunded twice and in 1997 expanded to incorporate monies for school district purposes. The total 1997 refunding was \$44,485,000 of which 63% (\$28,025,550) is applicable to IVDA.

These obligations are secured by loan repayments made by the IVDA to the Authority. The obligation of the IVDA under the loan agreement will be payable from the IVDA's tax revenues from the project area. In the event that such tax revenues are unavailable, the obligations are further secured by commitments from the member agencies in the following percentages:

Redevelopment Agency of the City of San Bernardino	92.08%
Redevelopment Agency of the City of Colton	3.06%
Redevelopment Agency of the City of Loma Linda	4.86%

The governing board of the Authority is composed of the Executive Directors of the City of Colton Redevelopment Agency and the City of Loma Linda Redevelopment Agency, the Agency Administrator of the Economic Development Agency of the City of San Bernardino and representatives of the County of San Bernardino. Since the Agency is not directly liable for repayment of these bonds, they have not been reflected in the accompanying financial statements.

On October 13, 1999, the IVDA's Board adopted a motion stating that the use of its cash balance is necessary to pay for scheduled debt service obligations and that suspension of further disbursements of 20% set-aside funds for affordable housing is necessary until further notice. However, during the current fiscal year, a receivable has been set-up reflecting the current Agency's portion of tax increment set-aside revenues.

8. NET ASSETS AND FUND BALANCE

The unrestricted net assets at June 30, 2006 had a deficit balance of \$(14,911,438) due to the increase in bond debt issued.

The Agency's debt service fund at June 30, 2006 had a deficit fund balance of \$(4,627,784) due to the advance from City.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2006

9. COMMITMENTS AND CONTINGENCIES

A. Lawsuits

The Agency is presently involved in certain matters of litigation that have arisen in the normal course of conducting Agency business. City management believes, based upon consultation with the City Attorney, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the Agency. Additionally, City management believes that the City's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize.

B. Commitments

The following is a list of commitments at June 30, 2006:

75' Aerial ladder fire truck	\$ 370,478
Installation of solar panel parking covers	1,992,324
Professional services for a Public Works project	63,466
Small Type 1 pumper truck	216,067
Total	\$ 2,642,335

As of June 30, 2006, in the opinion of City management, there were no additional outstanding matters that would have a significant effect on the financial position of the funds of the Agency.

10. PRIOR PERIOD ADJUSTMENTS

Fund Financial Statements

The Agency recorded the following adjustments to Agency funds to more accurately reflect the transactions of prior years relating to advances:

	Fund Balance, as Previously Reported	Prior Period Adjustments Advances From Other Funds	Fund Balance, as Restated
Debt Service:			
Project Area 1 Tax Increment	\$ 989,403	\$ (780,869)	\$ 208,534
Project Area 2 Tax Increment	174,722	(7,551,363)	(7,376,641)
Total Debt Service	1,164,125	(8,332,232)	(7,168,107)
Capital Projects:			
Project Area 1 Projects	7,555,568	(2,650,600)	4,904,968
Project Area 1 Low and Moderate Housing	5,473,973	(875,390)	4,598,583
Project Area 2 Projects	5,876,340	(6,108,489)	(232,149)
Project Area 2 Low and Moderate Housing	876,717	(424,000)	452,717
Inland Valley Redevelopment Project Area Low and Moderate Housing	3,102	-	3,102
Total Capital Projects	19,785,700	(10,058,479)	9,727,221
Total	\$ 20,949,825	\$ (18,390,711)	\$ 2,559,114

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SUPPLEMENTARY INFORMATION

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All Governmental Funds

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Combining Balance Sheet

All Governmental Funds

June 30, 2006

	Debt Service Funds		Capital Projects	
	Project Area 1 Tax Increment	Project Area 2 Tax Increment	Project Area 1 Project	Low and Moderate Housing
ASSETS				
Cash and investments	\$ -	\$ -	\$ 19,524,026	\$ -
Receivables:				
Accounts	-	-	-	157,912
Taxes	113,058	194,787	-	28,728
Interest	21,094	10,239	233,110	633
Contract and loans	-	-	79,862	1,039,459
Due from other funds and City	302,525	-	239,110	47,015
Due from other governments	-	-	-	1,511
Prepaid items	-	-	36,977	147
Land held for resale	-	-	870,790	5,213,528
Advances to City	-	-	5,569,800	-
Restricted assets:				
Cash and investments with fiscal agents	1,898,670	474,913	-	-
Total assets	<u>\$ 2,335,347</u>	<u>\$ 679,939</u>	<u>\$ 26,553,675</u>	<u>\$ 6,488,933</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 816,856	\$ 59,599
Accrued payroll	-	-	4,097	1,571
Due to other funds	56,620	2,401	-	493,611
Deposits payable	-	-	19,470	75
Deferred revenue	-	-	-	13,555
Advances from City	164,988	7,419,061	3,532,900	875,390
Total liabilities	<u>221,608</u>	<u>7,421,462</u>	<u>4,373,323</u>	<u>1,443,801</u>
Fund Balance:				
Reserved for:				
Encumbrances	-	-	2,340,656	-
Prepaid items	-	-	36,977	147
Sewer capacity rights	-	-	79,862	-
Land held for resale	-	-	870,790	5,213,528
Long-term receivables	-	-	-	1,039,459
Advances to City	-	-	5,569,800	-
Debt service	1,898,670	474,913	-	-
Unreserved, undesignated	215,069	(7,216,436)	13,282,267	(1,208,002)
Total fund balance	<u>2,113,739</u>	<u>(6,741,523)</u>	<u>22,180,352</u>	<u>5,045,132</u>
Total liabilities and fund balance	<u>\$ 2,335,347</u>	<u>\$ 679,939</u>	<u>\$ 26,553,675</u>	<u>\$ 6,488,933</u>

Capital Projects			
Project Area 2		Inland Valley Redevelopment Project Area	Total Governmental Funds
Project	Low and Moderate Housing	Low and Moderate Housing	
\$ 5,233,212	\$ 109,517	\$ 8,642	\$ 24,875,397
-	-	-	157,912
-	48,697	-	385,270
61,071	2,868	340	329,355
-	-	-	1,119,321
2,401	191,086	-	782,137
-	-	94,031	95,542
14,279	99	-	51,502
5,511,169	853,654	-	12,449,141
222,300	-	-	5,792,100
-	-	-	2,373,583
<u>\$ 11,044,432</u>	<u>\$ 1,205,921</u>	<u>\$ 103,013</u>	<u>\$ 48,411,260</u>
\$ 1,368	\$ 4,629	\$ -	\$ 882,452
2,700	1,268	-	9,636
196,995	-	-	749,627
10,436	8,500	-	38,481
-	-	94,031	107,586
6,378,489	424,000	-	18,794,828
<u>6,589,988</u>	<u>438,397</u>	<u>94,031</u>	<u>20,582,610</u>
301,679	-	-	2,642,335
14,279	99	-	51,502
-	-	-	79,862
5,511,169	853,654	-	12,449,141
-	-	-	1,039,459
222,300	-	-	5,792,100
-	-	-	2,373,583
(1,594,983)	(86,229)	8,982	3,400,668
<u>4,454,444</u>	<u>767,524</u>	<u>8,982</u>	<u>27,828,650</u>
<u>\$ 11,044,432</u>	<u>\$ 1,205,921</u>	<u>\$ 103,013</u>	<u>\$ 48,411,260</u>

CITY OF LOMA LINDA REDEVELOPMENT AGENCY
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
All Governmental Funds
For the year ended June 30, 2006

	Debt Service		Capital Projects	
	Project Area 1 Tax Increment	Project Area 2 Tax Increment	Project Area 1 Project	Low and Moderate Housing
REVENUES:				
Taxes and assessments	\$ 3,144,613	\$ 1,627,634	\$ -	\$ 844,922
Use of money and property	44,423	20,139	606,798	154,113
Other revenue	-	-	-	10,292
Total revenues	3,189,036	1,647,773	606,798	1,009,327
EXPENDITURES:				
Current:				
General government	-	-	966,271	600,167
Community development	-	-	2,261,062	32,611
Debt service:				
Principal retirement	370,152	94,152	-	-
Interest and fiscal charges	913,679	918,503	-	-
Bond issuance costs	-	-	719,418	-
Total expenditures	1,283,831	1,012,655	3,946,751	632,778
REVENUES OVER (UNDER) EXPENDITURES	1,905,205	635,118	(3,339,953)	376,549
OTHER FINANCING SOURCES (USES):				
Bond proceeds	-	-	20,428,000	-
Premium on bonds	-	-	251,175	-
Discount on bonds	-	-	(63,838)	-
Transfers in	-	-	-	70,000
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	20,615,337	70,000
Net change in fund balance	1,905,205	635,118	17,275,384	446,549
FUND BALANCE:				
Beginning of year, as restated	208,534	(7,376,641)	4,904,968	4,598,583
End of year	\$ 2,113,739	\$ (6,741,523)	\$ 22,180,352	\$ 5,045,132

Capital Projects			
Project Area 2		Inland Valley Redevelopment Project Area	Total Governmental Funds
Project	Low and Moderate Housing	Low and Moderate Housing	
\$ -	\$ 406,909	\$ 75,459	\$ 6,099,537
137,418	6,194	421	969,506
-	2,181	-	12,473
137,418	415,284	75,880	7,081,516
262,829	96,848	-	1,926,115
161,975	3,629	-	2,459,277
-	-	-	464,304
-	-	-	1,832,182
179,855	-	-	899,273
604,659	100,477	-	7,581,151
(467,241)	314,807	75,880	(499,635)
5,107,000	-	-	25,535,000
62,794	-	-	313,969
(15,960)	-	-	(79,798)
-	-	-	70,000
-	-	(70,000)	(70,000)
5,153,834	-	(70,000)	25,769,171
4,686,593	314,807	5,880	25,269,536
(232,149)	452,717	3,102	2,559,114
\$ 4,454,444	\$ 767,524	\$ 8,982	\$ 27,828,650

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
of the City of Loma Linda Redevelopment Agency
Loma Linda, California

We have audited the basic financial statements of the City of Loma Linda Redevelopment Agency (Agency), a component unit of the City of Loma Linda (City) as of and for the fiscal year ended June 30, 2006 and have issued our report thereon dated August 24, 2006. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the basic financial statements of the Agency are free of material misstatements, we performed tests of its compliance with certain provision of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. Such provisions included those provisions of laws identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Agency Board, management, and the California State Controller's office. However, this report is a matter of public record and its distribution is not limited.

Caporicci & Larson

Irvine, California
August 24, 2006

Toll Free Ph: (877) 862-2200

Toll Free Fax: (866) 436-0927

Oakland

180 Grand Ave., Suite 1365
Oakland, California 94612

Orange County

9 Corporate Park, Suite 100
Irvine, California 92606

Sacramento

777 Campus Commons Rd., Suite 200
Sacramento, California 95825

San Diego

4858 Mercury, Suite 106
San Diego, California 92111